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Summary of U.S. Economic Conditions

Recent economic statistics reflect weakened growth of overall demand, as evidenced by slackened consumer spending, a swelling of unsold goods, and a decline in industrial output. Real gross domestic product (GDP) growth slowed to an annual rate of 2.8 percent in the first quarter of 1995, following a robust increase of 5.1 percent (at an annual rate) in the fourth quarter of 1994. A slump in consumer spending caused the overall slowdown. Real consumer spending rose by only 1.4 percent ($12.4 billion) in the first quarter of 1995, following a hefty increase of 5.1 percent ($44.9 billion) in the previous quarter. Consumer purchases of durable goods recorded the biggest decline, decreasing by $6.6 billion in the first quarter, compared with an increase of $25.2 billion in the fourth quarter. Nondurable goods purchases increased by $4.1 billion, compared with an increase of $8.5 billion in the fourth quarter. The drop in consumer spending led to a swelling in business inventories. Business inventories increased by $63.0 billion in the first quarter, following an increase of $49.4 billion in the fourth quarter and $57.1 billion in the third quarter.

Exports in 1984 dollars declined to $696.9 billion from $697.9 billion, and imports increased to $816.6 billion from $805.0 billion. The trade deficit increased to $119.7 billion in the first quarter, from $107.1 billion in the fourth quarter.

With rising stocks of unsold goods, businesses curtailed their production. As a result, overall industrial output declined in March, the first contraction since September 1984, and the second since May 1983, according to the Federal Reserve Board. Several market groupings showed declines. The overall output of consumer goods decreased by 0.8 percent. The output of consumer durable goods fell by 1.9 percent. A drop in the production of light trucks, household furniture, and appliances dominated the overall decline. Consumer nondurables declined by 0.5 percent. Notable declines in the production of business equipment, transportation and farm equipment, and defense and space equipment were reflected in March data. Employment in manufactures tapered off with no new additions to factory payrolls.

Declines in housing starts and building permits were other signs that the economy is cooling off. Hampered by rising mortgage rates, housing starts fell by 6.0 percent in March below the February level. Building permits (seasonally adjusted at an annual rate) fell by 4 percent below the February and by 8 percent from the March 1994 rates.

Capital spending on new plant and equipment rose, briskly helping GDP growth. Real capital spending rose by 19.3 percent ($31.9 billion), following increases of 17.6 percent ($28.2 billion) in the fourth quarter and 14.1 percent in the third quarter of last year.

The surge in business spending, if continued, will boost the economy, but inventory overhang could dampen growth in the rest of 1995. Some analysts see the economy heading towards a recession in 1996 unless the Federal Reserve eases its monetary policy to encourage investment and consumer spending. Even if the Federal Reserve decides that such a change in course is warranted, its ability to cut interest rates and increase the supply of money, however, is constrained by several considerations. Externally, cutting interest rates could lower the value of the dollar on foreign exchange markets as investors pull out of dollar assets to seek higher returns elsewhere. Moreover, inflationary pressures could be generated by increased spending and rising import prices.

U.S. Economic Performance Relative to That of Group of Seven Members

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at an annual rate of 2.8 percent in the first quarter of 1995, following a 5.1-percent growth

rate in the fourth quarter of 1994. For 1994, real GDP increased by 4.1 percent.

The annualized rate of real GDP growth in the fourth quarter of 1994 was 5.9 percent in Canada, 2.4 percent in France, 3.0 percent in Germany, 0.1 percent in Italy, and 3.1 percent in the United Kingdom. Real GDP declined by 3.4 percent in Japan.

Industrial Production

Industrial production fell by 0.3 percent in March 1995, following a 0.1-percent increase in February. The March decline is the first since September 1994, and the second since May 1993. Much of the decline resulted from a 2.8-percent drop in utilities output, a 0.1-percent decline in manufacturing output, and a 0.5-percent drop in mining. In March, industrial production was 4.5 percent higher than it was 1 year ago. Capacity utilization contracted by 0.5 percent to 84.9 percent in March and was 3.4 percent higher than 1 year ago. Capacity utilization in manufacturing contracted by 0.4 percent in March and was 3.4 percent higher than 1 year ago.

For the year ending February 1995, other Group of Seven member countries reported the following growth rates of industrial production. The United Kingdom reported an increase of 3.8 percent; Japan an increase of 7.2 percent. For the year ending January 1995, Canada reported an increase of 10.2 percent, France an increase of 5.6 percent, Germany an increase of 7.8 percent, and Italy an increase of 12.3 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased by 0.3 percent in March 1995. The CPI advanced by 2.9 percent during the 12 months ending March 1995.

During the 1-year period ending March 1995, prices increased by 2.2 percent in Canada, by 1.8 percent in France, by 2.4 percent in Germany, by 4.9 percent in Italy, by 0.2 percent in Japan, and by 3.5 percent in the United Kingdom.

Employment

The unemployment rate remained unchanged in March at 5.5 percent. Nonfarm payroll employment rose by 203,000 over the month, with large gains in services and construction. Manufacturing employment was flat, following 5 months of solid growth. In other Group of Seven countries, unemployment in March was 9.7 percent in Canada, 12.3 percent in France, 8.2 percent in Germany, 11.9 percent in Italy, 2.9 percent in Japan, and 8.4 percent in the United Kingdom.

Forecasts

Forecasters expect real growth in the United States to average about 2.7 percent (annual rate) in the first quarter of 1995 and then to slow to an average of 2.3 percent (annual rate) in the remainder of the year. Factors that will constrain growth in 1995 include the impact of rising interest rates on housing and on consumer spending, the large inventory overhang, and the contractionary impact of the decline in government spending on incomes. Table 1 shows macroeconomic projections for the U.S. economy from January to December 1995, by six major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 5.5 percent throughout 1995. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.2 percent in the three remaining quarters of 1995. The slowdown in general economic activity, gains in labor productivity, and a slow rise in labor costs, wages, and compensation are expected to hold down inflation rates.

Table 1
Projected changes of selected U.S. economic indicators, by quarters, Jan.- Dec. 95

(Percent)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 forecasts
	GDP current dollars						
1995:							
Jan.-Mar	6.4	6.2	5.5	4.9	5.4	4.8	5.5
Apr.-June	7.7	5.5	3.7	5.4	3.3	3.9	4.9
July-Sept	6.7	6.0	3.6	4.9	2.8	5.6	4.9
Oct.-Dec	6.8	5.5	3.5	5.3	4.0	5.5	5.1
	GDP constant (1987) dollars						
1995:							
Jan.-Mar	3.0	3.0	3.0	2.3	2.8	2.2	2.7
April-June	4.2	2.0	1.6	2.6	1.3	2.0	2.3
July-Sept	4.1	2.5	1.2	2.2	0.6	2.2	2.1
Oct.-Dec	3.9	2.0	1.5	2.5	1,9	2.4	2.4
	GDP deflator index						
1995:							
Jan.-Mar	3.3	3.1	2.5	2.6	2.5	2.6	2.8
April-June	3.3	3.5	2.0	2.7	2.0	1.9	2.6
July-Sept	2.6	3.5	2.3	2.7	2.2	3.3	2.8
Oct.-Dec	2.8	3.4	2.0	2.7	2.0	3.1	2.7
	Unemployment, average rate						
1995:							
Jan.-Mar	5.5	5.5	5.6	5.4	5.5	5.6	5.5
April-June	5.3	5.4	5.7	5.4	5.5	5.6	5.5
July-Sept	5.1	5.4	5.8	5.5	5.5	5.7	5.5
Oct.-Dec	4.9	5.5	6.0	5.6	5.6	5.8	5.6

Note.—Except for the unemployment rate, percentage changes in the forecast represent annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: April 1995.

Source: Compiled from data provided by the Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $62.4 billion and imports of $71.4 billion in February 1995 resulted in a goods and services trade deficit of $9.0 billion, $2.9 billion less than the January deficit of $12.0 billion. The February 1995 deficit was $582 million less than the deficit registered in February 1994 ($9.6 billion) and approximately $200 billion less than the average monthly deficit registered during the previous 12 months ($9.2 billion).

The February trade deficit on goods was $14.2 billion, approximately $2.7 billion less than the January deficit of $16.9 billion. The February services surplus was $5.2 billion, approximately $283 million more than the January surplus of $4.9 billion.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2. Nominal export changes and trade balances for specific major commodity sectors are shown in table 3. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 4 and U.S. trade in services by major categories is shown in table 5.

Table 2
U.S. trade in goods and services, seasonally adjusted, Jan.-Feb. 95

(Billion dollars)

Item	Exports		Imports		Trade balance	
	Feb. 95	Jan. 95	Feb. 95	Jan. 95	Jan. 95	Feb. 95
Trade in goods (BOP basis):						
Current dollars—						
Including oil	45.5	44.3	59.7	61.1	-14.2	-16.8
Excluding oil	45.5	44.4	55.2	56.8	-9.6	-12.4
Trade in services:						
Current dollars	16.9	16.7	11.7	11.8	5.2	4.9
Trade in goods and services:						
Current dollars	62.4	61.0	71.4	72.9	-9.0	-11.9
Trade in goods (Census basis):						
1987 dollars	44.5	43.4	57.0	58.6	-12.5	-15.2
Advanced-technology products						
(not seasonally adjusted)	10.1	9.2	8.3	8.5	1.9	0.7

Note: Data on goods trade are presented on a Balance-of-Payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: *U.S. Department of Commerce News (FT 900)*, Feb. 1995.

Table 3
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan.-Feb. 1995

Sector	1994 Exports Jan.-Feb. 1994	1994 Exports Feb. 1994	Change Jan.-Feb. 1995 over Jan.-Feb. 1993	Feb. 1995 over Jan. 1994	Share of total, Jan.-Feb. 1994	Trade balances, Jan.-Feb. 1994
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	5.1	2.6	15.9	4.0	5.8	- 3.3
Airplane	1.7	1.2	-52.8	140.0	1.9	1.1
Airplane parts	1.5	.8	-6.3	14.3	1.7	1.1
Electrical machinery	7.7	3.9	18.5	2.6	8.7	-2.6
General industrial machinery	3.7	1.9	23.3	5.6	4.2	0
Iron & steel mill products	0.7	.3	16.7	0	0.8	-1.5
Inorganic chemicals	0.8	.3	33.3	-25.0	0.9	0.1
Organic chemicals	2.5	1.3	38.9	8.3	2.8	0.3
Power-generating machinery	3.4	1.6	13.3	-11.1	3.9	0.1
Scientific instruments	2.7	1.4	12.0	0	3.2	1.2
Specialized industrial machinery	3.4	1.6	17.2	-11.1	3.9	0.3
Telecommunications	2.7	1.4	28.6	7.7	3.1	-2.3
Textile yarns, fabrics and articles	1.1	.6	22.2	0.0	1.2	-0.5
Vehicle parts	3.7	1.8	27.6	-5.3	4.2	0.5
Other manufactured goods[1]	5.0	2.3	16.3	-11.5	5.7	-1.6
Manufactured exports not included above	21.6	11.3	20.7	7.6	24.5	-20.3
Total manufactures	67.4	34.3	15.0	3.6	76.3	-27.4
Agriculture	9.1	4.7	28.2	6.8	10.3	4.2
Other exports not incl.above	11.8	6.0	32.6	3.4	13.4	- 1.0
Total exports of goods	88.3	45.0	18.4	3.9	100.0	-24.2

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to the totals shown.

Data are presented on a Census basis.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1995.

Table 4
U.S. exports and imports of goods with major trading partners, Jan.1994- Feb. 1995
(Billion dollars)

Country/area	Exports				Imports	
	Jan.-Feb. 95	Feb. 95	Jan.-Feb. 94	Feb. 95	Jan.-Feb. 95	Jan.-Feb. 94
North America	13.6	27.4	23.2	16.3	32.4	24.8
Canada	10.1	20.1	15.7	11.6	22.9	17.7
Mexico	3.5	7.4	7.5	4.8	9.5	7.1
Western Europe	10.3	19.9	17.6	10.6	21.5	18.0
European Union (EU)	9.5	18.4	16.2	9.6	19.6	16.5
Germany	1.7	3.4	2.9	2.6	5.3	4.3
European Free-Trade Association (EFTA)[1]	0.4	0.9	0.9	0.8	1.5	1.2
Former Soviet Union/Eastern Europe	0.4	0.7	0.7	0.6	1.2	0.7
Former Soviet Union	0.2	0.5	0.5	0.4	0.9	0.4
Russia	0.2	0.4	0.3	0.3	0.7	0.3
Pacific Rim Countries	14.0	26.4	22.0	20.5	42.6	37.4
Australia	0.8	1.7	1.3	0.3	0.6	0.5
China	1.1	1.8	1.4	3.0	6.4	5.3
Japan	5.0	9.5	8.1	9.7	19.0	17.3
NICs[2]	5.7	10.8	8.7	5.1	11.7	10.3
South/Central America	3.7	7.4	5.9	3.2	6.4	5.4
Argentina	0.3	0.7	0.7	0.1	0.2	0.2
Brazil	0.9	1.7	1.1	0.6	1.4	1.3
OPEC	1.4	3.2	3.1	2.6	5.3	4.1
Total	45.0	88.3	74.6	55.3	112.5	93.2

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.
[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.
Note.— Country/area figures may not add to the totals shown due to rounding. Exports of certain grains, oilseeds and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1995.

Table 5
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1994-Feb. 1995, seasonally adjusted

	Exports		Change	Trade balances	
	Jan.-Feb. 95	Jan.-Feb. 94	Jan.-Feb. 95 over Jan.-Feb. 95	Jan.-Feb. 95	Jan.-Feb. 94
	Billion dollars		*Percent*	Billion dollars	
Travel	10.1	9.3	8.6	2.3	2.0
Passenger fares	3.2	2.7	18.5	0.9	0.7
Other transportation	4.3	3.8	13.2	-0.4	-0.1
Royalties and license fees	4.2	3.5	20.0	3.2	2.3
Other private services[1]	9.9	9.5	4.2	4.3	3.7
Transfers under U.S. military sales contracts	1.9	1.6	18.7	0.2	-0.3
U.S. Govt. miscellaneous services	0.1	0.1	0	0.4	-0.3
Total	33.6	30.5	10.2	10.1	8.1

[1] "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, and other information services, such as engineering, consulting, etc.
Note. Services trade data are on a Balance-of-Payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1995.

INTERNATIONAL TRADE DEVELOPMENTS

The Peso Crisis Revisited

The Mexican financial crisis that erupted last December (see *IER*, March 1995) is one that President Zedillo and Michel Camdessus, the Managing Director of the International Monetary Fund, have called a problem of "illiquidity, not insolvency." In his first version of a U.S. financial support package for Mexico in early January, President Clinton proposed that he would "[t]ake appropriate steps to help Mexico get through these short-term financial pressures and build on the sound foundation for economic growth created in recent years."

A more somber perception of the situation emerged in the second half of February when the value of the peso sank to a new low of almost 8 pesos to the U.S. dollar as compared to the pre-crisis exchange rate of 3.5 pesos to the U.S. dollar. On March 9, the Zedillo administration announced its austerity and economic recovery program, and it revised downward the 1995 macroeconomic goals that were originally announced in January of this year, estimating them at that later point as being unattainable. The March program projected high rates of inflation for the first two quarters of 1995, then an improvement, and an total inflation rate of 42 percent for the whole year of 1995. The Mexican Government expected real GDP to fall steeply in the first half of the year and to decline by 2 percent on an annual basis for 1995 overall. (The consulting firm Ciemex-WEFA, a Mexican affiliate of Wharton Economic Forecasts Associates, projects a 4-percent drop of Mexican real GDP for 1995). Bolstered by the cheaper peso, Mexico's merchandise exports were projected to grow rapidly and Mexican imports were expected to rise hardly at all, because of the decline of the peso in purchasing power and because of a Zedillo administration policy of credit restraints.

The March program specified an increase in Mexico's value-added tax, from 10 percent to 15 percent, and it steeply raised the price of gasoline by 35 percent, and of electricity to final consumers by 20 percent. In addition, these measures included specific incentives for new privatizations; they specified new, stringent federal budget cuts, higher reserve requirements for banks, and tight limits for domestic credit creation. The program also provided for restructuring of the Government's short-term debt with the help of U.S. and international loans. The floating exchange- rate regime was to continue for an undetermined time.

Assisted by the largest financial assistance ever approved for an International Monetary Fund (IMF) member (described in detail in *IER*, March 1995), Mexico is by now beginning to show some signs of stabilization. Repayment of foreign creditors proceeds on schedule. The peso has rebounded, registering around 6 pesos to the dollar at the beginning of May, and Mexican stock prices have also begun to recover. Most notably the years of sharply widening annual trade deficits and 4 years of consecutive monthly trade deficits have led to a Mexico that has enjoyed trade surpluses for the first time both in February and in March of this year, 1995.

Nonetheless, Mexico is paying a price in the form of a serious recession for its apparent move towards financial stabilitization. The adverse effects on the Mexican economy of the devaluation itself and of the severe austerity measures imposed by the Zedillo administration are already being felt. The administration is dramatically trimming federal spending. Short-term corporate interest and mortgage rates, reportedly in the 70 to 100 percent range, are contributing to a severe credit crunch and causing business failures that are expected to continue. In the first three months of 1995, the Mexican Association of Bankers reported a 45-percent increase in bank defaults. More than 500,000 people have already lost their jobs in the wake of the peso crisis and a further increase in unemployment is expected. Roughly one-fifth of Mexicans are now considered either unemployed or underemployed.

Mexican living standards have been drastically lowered as well by high rate of inflation. The quarterly rate of inflation for January-March 1995 was 13.9 percent, in keeping with the 42-percent annual inflation rate projected by the Government in March for this year. Although better than expected by many private economists, this rate of inflation, the high interest and mortgage rates, the wage restraints policy, and the

rising value-added taxes and prices for publicly provided goods, are lowering real wages sharply and lowering the incomes of the self-employed. Growing concern is reported about crime and the possibility of social disturbances, fuelled by the hardships Mexicans are now undergoing.

For long-term development, Mexico continues to depend on major inflows of foreign investment, just as in the past, because the Mexican internal savings rate is much too low to finance growth (differing hardly at all from the savings rate in the United States). With significant demographic pressure, Mexico needs a considerable growth rate to maintain its per capita income at even the current, barely acceptable level. The administration of former President Salinas considered foreign investment to be the key fuel for the country's modernization and growth. After the peso crisis, the Zedillo administration appears to be more selective in accepting foreign financing than was its predecessor, avoiding even the concept of using excessive short-term credit. For example, when speaking to the 73d annual Bankers' Association for Foreign Trade, a senior official in the Zedillo administration's March austerity program, Alejandro Valenzuela, said that Mexico hopes to avoid drawing down the $10 billion in short-term credits that the Bank of International Settlements had made available.

Because Mexico wishes to rely less on short-term credit than before, the long-term and medium-term international and U.S. loans that were offered in January 1995 together with private direct foreign investment must be the foreseeable dominant sources of foreign financing. According to Herminio Blanco, Secretary of Commerce (SECOFI), the new Mexican drive for privatizations and business partnerships with foreign investors in capital goods, infrastructure, banking, and petrochemicals will attract the direct foreign investment that he hopes will lead to sustainable productive growth in his country.

The availability of this kind of private direct foreign investment is probably, therefor, going to be one key determinant of Mexico's medium- and long-term development. According to SECOFI investment data, in 1989-94, direct foreign investment accounted each year for the overwhelming share of total foreign investment, except in 1993, when short-term portfolio investment (so called "hot money") began to pour into Mexico. The year 1994 was the first year of the North American Free-Trade Agreement (NAFTA). That year direct foreign investment continued to surge, from $4.9 billion in 1993 to $8.0 billion, not so much from NAFTA partners but mostly from Japan and the European Union. The year 1994 was also a year of considerable political and financial turmoil in Mexico, leading up to the yearend peso crisis. In the process, monthly portfolio investment began to drop sharply in March of that year. On an annual basis, portfolio investment declined from a peak of $10.7 billion in 1993 to only $4.1 billion in 1994. The atypical 1993 composition of total foreign investment, when the portfolio portion amounted to more than two-thirds of overall foreign investment, reverted to two-thirds direct investment and one-third portfolio investment in 1994.

Inasmuch as direct investment is less flexible than portfolio investment when reacting to changes in the business environment, the relative strength of direct foreign investment in 1994 is no predictor of the future. What does affect the future is the peso depreciation that has significantly reduced the value of assets and materials and the cost of labor in Mexico, in terms of major foreign currencies. Also affecting the future is NAFTA, which presumably will continue as an incentive for foreign equity capital. But keeping up these high levels of direct foreign investment in years to come will depend most of all on the ability of Mexico to restore political, social, and economic order.

Update on U.S.-Korean Trade Disputes

Several sources of bilateral trade friction with Korea have recently been the subject of increased tension and negotiation. First, in late March, Korea had to agree to enforce a 1992 bilateral agreement that facilitates market access by U.S. firms. By agreeing, Korea thereby avoided possible U.S. trade sanctions. In a second trade area, in late April, the United States Trade Representative (USTR) had to place Korea on a "priority watch list" because of shortcomings in Korea's regime to protect intellectual property rights (IPR). Finally, in a third area, the United States has recently suggested that it may take a long-standing dispute over Korean restrictions on imported meat to the World Trade Organization (WTO) for resolution.

Review of telecommunications trade agreement

On March 25, 1995, after a review of a 1992 bilateral telecommunications agreement, the United States and Korea resolved several lingering problems of Korean noncompliance with the 1992 agreement. As a result, Korea avoided possible U.S. trade sanctions. Section 1377 of the Omnibus Trade and Competitiveness Act of 1988 requires that the United States conduct an annual review of bilateral telecommunications trade agreements. The reviews are designed to determine whether foreign governments are in compliance with previously negotiated agreements on telecommunications trade.

The 1995 review centered on Korean Government procurement and approval of type for imported telecommunications equipment. As a result of the review, the Korean Government agreed that the Government-owned Korea Telecom would engage in nondiscriminatory procurement. In particular, two U.S. firms, AT&T and Raychem, became eligible to bid for Korea Telecom's procurement contracts. Korean officials also said that Korean approval of type is not necessary in order to sell certain types of telecommunications equipment in Korea. Type approval often requires lengthy inspection of telecommunications equipment to ensure that it does not harm the public network. U.S. officials noted that most countries do not require type approval when telecommunications equipment is not to be connected to the public network. In addition, U.S. companies were concerned that proprietary information submitted to the Korean Government as part of the type approval process has occasionally been leaked to Korean firms.

The USTR estimates that as a result of the review, U.S. telecommunications providers may see a $100 million increase in sales to Korea. The two countries also agreed to set up an experts group that will discuss issues such as mutual recognition of equipment approval and to draw up criteria for determining when type approval is not required. In the meantime, Korea agreed to consider expeditiously any U.S. requests for type approval for the Korean market, of U.S. equipment that does not harm the Korean public network. AT&T was concerned that Korea was treating a particular piece of switching equipment as a new product, thereby subjecting it to a lengthy approval process. AT&T maintained that the product was merely an upgrade of a previously approved product. The Korean Government also confirmed that certain products offered by another U.S. supplier are not subject to type approval in Korea.

Prior to completion of the review, the USTR had begun to compile a list of products that could have been subject to trade sanctions if Korea had been found in violation of the 1992 agreement. An affirmative finding of a violation during the review process would have designated Korea as a "priority foreign country" and could have triggered retaliation against Korea's exports to the United States of telecommunications products or other goods and services.

Protection of intellectual property rights

Insufficient protection of IPR continues to be a source of bilateral tension between the United States and Korea. On April 29, 1994, USTR Michael Kantor placed Korea and seven other U.S. trading partners on the "priority watch list," pursuant to special 301 provisions of the Trade Act of 1974. The other trading partners placed on the priority watch list were Brazil, the European Union, Greece, India, Japan, Saudi Arabia, and Turkey. Although the USTR said that enforcement of IPR laws in Korea had improved during the past year, the action is the same designation that was given Korea's IPR protection last year. In making the designation, Ambassador Kantor listed several specific problems regarding IPR protection in Korea:

- Piracy of large amounts of end-user software.
- Lack of recognition of well-known trademarks.
- Failure to protect pre-1987 works under the copyright law.
- Lack of protection for trade secrets.
- Software and motion picture valuation.

The Korea Industrial Property Office (KIPO) registers trademarks, using the first-to-file rule. Any party may register a foreign trademark, whether the party filing the registration is the trademark owner or not. As a result, KIPO often refuses owners of U.S. trademarks the KIPO registration of their own marks. In some cases, unauthorized persons have applied for or have registered trademark applications for marks that are identical or similar to a U.S. trademark owner's mark. In such cases, the U.S. owners are reportedly required to try to prove, often unsuccessfully, that their trademarks are well known. If an owner's trademark does not appear on the KIPO list of well-known trademarks, KIPO routinely refuses to overturn the first filing. Earlier this year, KIPO announced that it would study its approval procedures for trademarks that are copied from those of foreign owners.

U.S.-copyrighted works that were created before 1987 are not protected under Korean law. Although such works do not receive legal copyright protection in Korea, the USTR said recently that Korea has acted to reduce the copying and sale of such goods during the past 2 years. According to the USTR, Korean Customs values software and motion pictures based on the full value of their content, and not the medium itself, contrary to international practice.

Restrictions on meat imports

The U.S. spokesman said recently that the United States may take its ongoing dispute over Korean restrictions on imported beef and pork to the WTO. In November 1994, the USTR initiated a section 301 investigation into the U.S. industry complaints. That investigation is still in progress. Korea's restrictions on foreign meat imports have been a topic of bilateral dispute since 1988.

The dispute involves Korea's shelf-life requirements, its lengthy inspection procedures, and its other requirements that the U.S. beef industry maintains discriminate against imported meat. Some of the shelf-life requirements for various types of meat (frozen, chilled, and vacuum-packed beef, for example) are shorter than the time required to ship the products to Korea. Noting that other countries, such as Mexico and Japan, have considerably longer shelf-life requirements for comparable beef products, U.S. industry officials maintain that their products are unfairly barred from the Korean market. Korea justifies the measures on concerns over food safety.

Another agricultural product that has had difficulties entering Korea is grapefruit. In early April 1995, the problem arose again as one-third of imported California grapefruits rotted while in storage at Pusan port awaiting tests for pesticide residues. In response to the incident, Korea said it would reduce the amount of time to clear perishable products through Customs from 25 days to 5 days.

Total U.S. agricultural exports to Korea reached $2.3 billion in 1994, making Korea the fourth-largest U.S. agricultural export market, behind Japan, Canada, and Mexico. In the area of cold-storage beef, Korea released statistics in late April 1995, that indicate that the United States is the main foreign supplier of that type of beef to Korea, surpassing Australia for the first time. U.S. industry and government representatives maintain that the figures indicate that the Korean market holds great potential for additional U.S. exports of meat and other agricultural products.

Much Awaited Japanese Deregulation Plan Now Released

The Japanese Government announced in 1994 that it would publish and implement a 5-year economic deregulation plan to restructure its economy. The deregulation plan, scheduled for release by the end of March 1995, was, among other things, designed to create business opportunities and to lessen trade disputes with foreign nations. The plan would streamline bureaucratic rules and eliminate or change outdated domestic laws and regulations that impede the efficient operation of Japan's economy. It would also further open Japan's markets to competitive foreign goods and services and ultimately help reduce the country's large trade surplus.

A commission made up of both government and private-sector members was created by the Japanese Government to study deregulation and present recommendations on which the Government would base its deregulation plan. Big businesses and the academic community reportedly favored eliminating all restrictive regulations that handicapped domestic industry and imperiled its future global competitiveness. Small businesses and government institutions such as the Ministry of Finance and Ministry of Agriculture, Forestry, and Fisheries, were reportedly opposed to radical deregulation. Commission delegates representing big businesses and the academic community argued that deregulation would encourage business activities and create jobs, although representatives for small business interests argued that deregulation would only help big businesses.

To encourage meaningful deregulation, on November 15, 1994, U.S. Government officials presented the Japanese with a detailed paper highlighting over 200 specific deregulation and administrative reforms that they would like incorporated into the deregulation plan. The U.S. position recommended that Japan center its initial deregulation efforts in the areas of agriculture, automotive products, construction materials, distribution, energy, financial services, foreign direct investment, legal services, medical devices and pharmaceuticals, and telecommunications and information systems. According to United States Trade Representative (USTR) Mickey Kantor, "the elimination of regulatory impediments in the Japanese market, combined with more open and transparent government processes and a proactive competition policy, are necessary and interlinked [with] measures to address some of Japan's broader structural problems that impede market access."

The Japanese Government released a draft of the deregulation plan on March 10, 1995. Major Japanese business groups and the U.S. Embassy congratulated Prime Minister Murayama's Government for its unique gesture of releasing the plan for review before it emerged in final form. However, both groups were almost unanimous in their criticisms of the package. The Nikkei Weekly reported that critics labeled the package as "vague, incomplete, and superficial." Overall, Japanese business groups and U.S. Embassy officials complained that few of the 1,750 measures identified by the plan were new, since most were either recycled from earlier government programs or were changes already executed or agreed to.

Ambassador Kantor stated that "the package falls far short of the comprehensive deregulation objectives set out by the Japanese government in 1994. Those June 1994 goals for the five-year deregulation plan included expanding domestic demand and promoting imports, pursuing improvements in the quality of national life, creating new industries and expanding consumer choice and narrowing the price differentials

between the Japan and the rest of the world." U.S. officials were especially disappointed that the package failed to remove restrictions on the use of premiums to promote products, did not include the deregulation of the Large-Scale Retail Store Law, or remove regulatory barriers against autos and auto parts. Sir Leon Brittan, Vice President of the European Union, stated that he "welcome[d] the transparency with which the exercise [was] being conducted." However, he also reported that he was "disappointed by the results of the preliminary analysis of the report." He also stated that he did not "feel that the Interim Report provide[d] any guarantee that the government [was] moving towards in-depth deregulation."

On March 31, 1995, the Government of Japan formally published the 5-year deregulation plan. The plan affects practically every area of the Japanese economy, and it eases administrative rules and regulations to further open Japan's economy to international competition. The final package focuses on areas such as transportation, information and telecommunications, public utility rates, legal services, housing and land use, energy, employment and labor, air and sea transportation, distribution, and customs procedures.

The Japanese Government anticipates that over 60 percent of the 1,091 items targeted by the plan will be implemented by the end of March 1996, and an additional 10 percent by the end of March 1997. Initiatives contained in the deregulation plan include—

- Review of the Large-Scale Retail Store Law by the end of March 2000.
- End of restrictions on petroleum imports by the end of March 1996.
- Strengthening the Japanese Fair Trade Commission.
- Review by March 2000 of prohibitions against self-service gas stations.
- Review of standards for approving tobacco retail sales.
- Freedom for stores to offer discounts and prizes by March 1996.
- Introduction of a bidding system for radio frequencies by 2000.
- Elimination of restrictions on connections between private and public telephone networks by 1997.
- Decision within 3 years, of whether Japan will allow Western-style stockholding companies.
- Relaxation of rules controlling imports of foreign- made medicines.
- Loosening of rules governing railway fares after March 1996.
- Bringing Japan's certification and labeling rules into line with international standards.
- Relaxation of export rules on certain food products, such as soy sauce, green tea, dried shiitake, mushrooms, mandarin oranges, and apples.
- Review of laws that currently exempt specific cartels from Japan's antimonopoly laws, and the abolition of antimonopoly-related prohibitions on holding companies.

The Nikkei Weekly reported that the elimination of the prohibition on holding companies will "stimulate new business by making it easier for venture capitalist[s] to invest in small enterprises and it would allow major Japanese companies to adopt systems similar to many U.S. and European conglomerates."

Like the draft deregulation plan, the final package was also characterized as vague, incomplete, and superficial. Critics, including U.S. Ambassador to Japan, Walter Mondale, alleged that the final package was ambiguous and short on tangible criteria and new ideas. Deadlines for implementation were either unstated or were off in the remote future. According to critics, many of the measures call for actions no stronger than conducting an evaluation of existing rules and regulations. *The Nikkei Weekly* reported that "as many as 700 of the 1,091 items have already been implemented or are scheduled to be implemented, about 360 are under study, and about 450 are difficult to relax." U.S. Government officials were also disappointed that the package failed to include measures to lower prices in Japan's domestic market to international levels, and that the package did not deal with the deregulation of Japan's auto and auto parts industry or its automobile inspection system. In spite of the criticisms, however, most welcomed the plan and its associated reviews as an important first step in what would hopefully be a more ambitious long-term deregulation program.

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Industrial production, by selected countries and by specified periods, Jan. 1991-April 1995
(Total industrial production, 1985=100)

				1993							1995			
Country	1991	1992	1993	I	II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States[1]	104.2	104.3	109.2	115.7	117.4	118.8	120.4	120.3	121.7	122.1	122.0	122.0	121.6	121.1
Japan	127.7	120.4	115.3	90.3	90.6	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Canada[3]	113.8	114.9	118.0	100.1	105.5	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Germany[4]	100.0	98.1	91.5	92.6	94.6	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
United Kingdom	109.0	108.6	111.1	104.9	101.4	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
France	114.2	112.9	108.6	100.2	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Italy	116.8	115.3	112.8	101.1	107.1	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])

[1] 1987=100.
[2] Not available.
[3] Real domestic product.
[4] 1991=100.

Source: *Main Economic Indicators;* Organization for Economic Cooperation and Development, November 1994, *Federal Reserve Statistical Release*; May 16, 1995.

Consumer prices, by selected countries and by specified periods, Jan. 1992-March 1995
(Percentage change from same period of previous year)

				1994								1995			
Country	1992	1993	1994	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States	3.0	3.0	2.6	2.5	2.4	2.9	2.7	3.0	2.6	2.7	2.7	2.8	2.8	2.9	2.9
Japan	1.6	1.3	0.7	1.2	0.7	0.0	0.8	0.2	0.7	1.0	0.7	([2])	0.6	0.2	([2])
Canada	1.5	1.8	0.2	0.6	0.0	0.2	0.0	0.2	-0.2	-0.1	0.2	1.6	0.6	1.8	2.2
Germany	4.0	4.2	3.0	3.3	3.0	3.0	2.8	3.0	2.8	2.7	2.7	2.3	2.3	2.4	2.3
United Kingdom	3.7	1.6	2.5	2.4	2.6	2.3	2.6	2.2	2.4	2.6	2.9	3.4	3.3	3.4	3.5
France	2.4	2.0	1.7	1.7	1.7	3.8	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.8
Italy	5.1	4.4	1.0	4.3	3.9	3.8	4.0	3.8	3.8	3.9	4.2	4.4	4.0	4.5	4.9

[1] Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, May 1995.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1992-March 1995

				1994						1995			
Country	1992	1993	1994	I	II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States	7.4	6.8	6.1	6.6	6.2	6.0	5.6	5.6	5.4	5.5	5.7	5.4	5.5
Japan	2.2	2.5	2.9	2.8	2.9	3.0	3.0	2.9	3.0	([2])	2.9	3.0	([2])
Canada	11.3	11.2	10.3	11.0	10.7	10.2	9.7	9.6	9.6	9.7	9.7	9.6	9.7
Germany[3]	4.6	5.8	6.5	6.4	6.5	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4
United Kingdom	10.0	10.4	9.5	9.9	9.7	9.6	9.0	9.0	8.8	8.7	8.8	8.7	8.6
France	10.2	11.3	12.3	12.3	12.4	12.4	12.3	12.3	12.3	([2])	12.2	12.1	([2])
Italy	7.3	10.3	11.4	11.2	11.9	11.4	12.0	([4])	([4])	([2])	12.2	([4])	([4])

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] Formerly West Germany.
[4] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, May 1995.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1992-April 1995
(Percentage, annual rates)

Country	1992	1993	1994	1994 I	1994 II	1994 III	1994 IV	1994 Oct.	1994 Nov.	1994 Dec.	1995 I	1995 Jan.	1995 Feb.	1995 Mar.	1995 Apr.
United States	3.7	3.2	4.6	3.4	4.3	4.8	5.8	5.5	5.7	6.2	6.2	6.2	6.2	6.1	6.1
Japan	4.4	2.9	2.2	2.2	2.1	2.2	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.1	(2)
Canada	6.7	5.1	5.5	4.0	5.7	5.8	5.9	5.6	5.7	6.7	8.1	7.8	8.4	8.3	(2)
Germany	9.4	7.1	4.0	5.7	5.1	4.8	5.1	5.1	5.1	5.2	4.9	5.0	5.0	4.9	(2)
United Kingdom	9.5	5.8	5.4	5.2	5.1	5.3	6.0	5.8	5.9	6.3	6.6	6.5	6.7	6.6	(2)
France	10.1	8.3	5.7	6.1	5.5	5.5	5.5	5.5	5.4	5.8	5.7	5.7	5.7	7.7	(2)
Italy	13.9	10.0	8.4	8.3	7.9	8.5	8.8	8.8	8.7	8.9	9.7	9.1	9.1	10.9	(2)

[1] 90-day certificate of deposit.
[2] Not available.

Source: *Federal Reserve Statistical Release*, May 30, 1995 *Federal Reserve Bulletin*, May 1995.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1992-May 1995
(Percentage change from previous period)

Item	1992	1993	1994	1994 II	1994 III	1994 IV	1994 Dec.	1995 I	1995 Jan.	1995 Feb.	1995 Mar.	1995 Apr.	1995 May
Unadjusted:													
Index[1]	97.0	100.1	98.5	100.0	96.5	95.9	97.4	96.0	97.0	96.0	92.4	89.3	89.9
Percentage change	-1.5	3.1	-1.6	-1.6	-3.5	-.6	1.9	.1	-.4	-1.0	-3.6	-3.3	.6
Adjusted:													
Index[1]	100.9	104.2	101.5	103.5	99.9	98.0	99.3	95.1	98.4	96.8	92.9	90.5	91.0
Percentage change	-.1	3.3	-2.7	-1.2	-3.6	-1.9	1.5	-2.9	-.9	-1.6	-3.9	-2.6	.5

[1] 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, June 1995.

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Trade balances, by selected countries and by specified periods, Jan. 1992-March 1995

(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

				1994				1995			
Country	**1992**	**1993**	**1994**	**II**	**III**	**IV**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**
United States[1]	-84.5	-115.7	-151.3	-152.4	-164.5	-157.1	-139.7	-167.5	-190.9	-160.6	-151.1
Japan	106.4	120.3	(2)	121.9	113.5	(2)	(2)	(2)	(2)	(2)	(2)
Canada[3]	12.1	13.3	(2)	14.7	19.3	(2)	(2)	(2)	(2)	(2)	(2)
Germany	21.0	35.8	(2)	51.7	40.2	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom	-30.8	-25.5	(2)	-21.4	-15.3	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	5.8	15.8	(2)	14.8	15.6	(2)	(2)	(2)	(2)	(2)	(2)
Italy	-6.6	20.6	(2)	21.6	27.6	(2)	(2)	(2)	(2)	(2)	(2)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.
[2] Not available.
[3] Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 18, 1995; *Main Economic Indicators;* Organization for Economic Cooperation and Development, January 1995.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1992-March 1995

(In billions of dollars)

				1994				1995			
Country	**1992**	**1993**	**1994**	**II**	**III**	**IV**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**
Commodity categories:											
Agriculture	18.6	17.8	19.0	3.6	3.8	6.9	2.3	6.2	1.9	2.2	2.1
Petroleum and selected product—(unadjusted)	-43.9	-45.7	-47.5	-11.9	-14.0	-11.5	-3.6	-11.6	-3.8	-3.5	-4.3
Manufactured goods	-86.7	-115.3	-155.7	-33.8	-44.3	-47.5	-12.4	-40.3	-15.0	-12.3	-13.0
Selected countries:											
Western Europe	6.2	-1.4	-12.5	-2.3	-5.4	-3.6	-.2	-.1	.1	-.5	.3
Canada[2]	-7.9	-10.2	-14.5	-3.0	-3.7	-4.8	-1.5	-2.4	-1.0	-.9	-.5
Japan	-49.4	-59.9	-65.6	-15.4	-16.8	-18.2	-6.1	-15.0	-4.6	-4.6	-5.8
OPEC (unadjusted)	-11.2	-11.6	-13.8	-3.7	-4.8	-3.2	-.9	-1.6	-.3	-.7	-.6
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$16.80	$15.13	$14.22	$13.98	$15.70	$14.95	$14.71	$15.43	$15.05	$15.50	$15.76

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 18, 1995.

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